Pensions & Investment Age

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Ashland Oil plans ESOP-based program

By Marci Baker

RUSSELL, Ky. — Ashland Oil Inc. plans to set up the largest known floor offset pension program at a time when government agencies might be clamping down on such programs.

Ashland, which only months ago successfully defended itself against a hostile takeover bid from the Belzberg family, plans to put a sizable portion of company stock into the hands of employees and to pay for pension benefits through a combined employee stock ownership plan and its defined benefit plan.

Bank of New York, New York, and Hartmarx Corp., Chicago earlier decided to set up floor offset programs (*Pensions & Investment Age*, March 17).

But while interest among corporate pension officials in floor offset programs is climbing, the trend could be brought up short by regulatory action in Washington.

The Department of Labor, the Internal Revenue Service and the Pension Benefit Guaranty Corp. all are looking into the new programs. Benefits experts believe they will clamp down on them through rulings that will eliminate much of the incentives to corporations that want to set them up.

At issue is whether these plans are in the best interest of employees and whether they violate provisions of the Employee Retirement Income Security Act.

"Washington is looking very seriously at these plans. They understand that the laws, as they are written, are ambiguous on (the legality) of floor offset plans," said Donald Weeden, principal in charge of the pension group at Morgan Stanley & Co., New York.

"Floor offsets are a real gray area," added Frederick Rumack, director of tax and legal services at Buck Consultants, New York. "It will become an issue, no doubt, for Congress to deal with."

In floor offset plans, companies establish ESOPs designed to provide benefits in conjunction with their existing defined benefit plans. Pension benefits accrued by the formula set up under the defined benefit plan are funded first through the ESOP. Any balance in accrued benefits is provided by the defined benefit plan.

For the most part, companies such as Bank of New York and Hartmarx are funding the new ESOPs by transferring excess defined benefit assets without terminating the existing plan, bypassing the need to buy annuities to cover accrued benefits. In the process, the companies can recapture a larger and tax-free sum for corporate purposes.

Ashland Oil, however, intends to do a spinoff/termination, recapturing between $200 million and $300 million pretax for general corporate use, according to a company spokesman.

Annuities will be purchased to lock in accrued pension benefits to employees. Future obligations will be satisfied by an ESOP set up by Ashland earlier this year and company contributions to a post-termination defined benefit plan.

As of the fiscal year ended Sept. 30, the actuarial present value of Ashland's pen-

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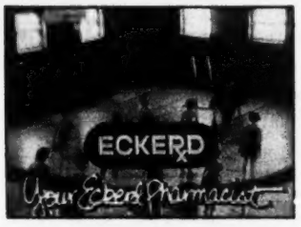
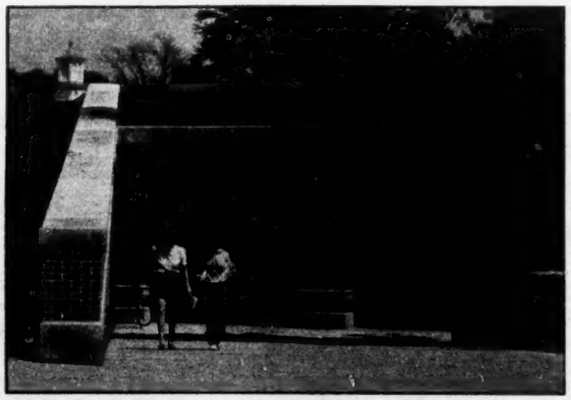
Inside:

CORPORATE FINANCE: Despite last-minute snags, Jack Eckerd Corp. has gone private in a $1.3 billion, all-cash deal led by Merrill Lynch Capital Partners — page 33.



LATE NEWS: Exxon Corp. announced at press time that it will recapture more than $1 billion in pension assets through a spinoff/termination of its nearly $5 billion U.S. retirement plan. Exxon plans to file with the PBGC this week — page 54.



ENDOWMENTS & FOUNDATIONS: A trustee's investment know-how managed to turn a benefactor's gift to Buena Vista College into the Harold Walter Siebens School of Business/Forum, above. The small Iowa college's story appears on page 46. Other trends are spotlighted — page 25.

REAL ESTATE: Bechtel's pension fund cut its real estate [illegible] to

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More flexible rule offered

Plan assets definition would ease access to pools

By Joel Chernoff

The Department of Labor will loosen key provisions in its long-awaited definition of plan assets, relieving anxiety that the government would shut off access for private pension funds to many pooled alternative investments.

Department officials strongly suggest a problematical test included in the 1985 proposal put forth under former pension administrator Robert Monks will be eliminated, while another key restriction will be eased.

The final rule will be "significantly less regulatory than the prior proposal," said David M. Walker, deputy assistant secretary for the Pension and Welfare Benefits Administration.

The rule will provide greater flexibility to plans, he said, allowing them "to maximize their investment opportunities."

The 1985 proposal "would have had the result of causing certain kinds of investments to no longer be available to plans, particularly in the real estate and venture capital and oil and gas areas," Dennis M. Kass, the assistant secretary, told the Midwest Pension Conference recently, according to a transcript of his talk.

Loss of such investment alternatives would have hurt plans' ability to diversify their investments, and thus would have harmed plan participants and beneficiaries, he said.

Peter Kelly, a pension lawyer who represented Balcor/American Express on the plan assets issue, praised the department's position as "courageous."

"In effect, they're backing away from an expansion of jurisdiction," he said.

In general, the plan assets definition, which is due out this summer after 11 years of work, will clarify whether an interest in a pool or the assets underlying the pool are considered plan assets.

If there is a "look through" to the underlying assets, then the pool manager would become a fiduciary, and subject to the Employee Retirement Income Security Act's prudence and diversification rules. In addition, ERISA's prohibited transaction rules affecting a plan and related parties would make many normal business practices technically illegal.

What's more, if the manager were considered a fiduciary, it would be unclear whether such a manager would be able to receive incentive compensation; operators of such pools typically charge fees that are pegged to the investments' performance.

The rule would exempt from regulation those pools that are widely held, freely transferable and publicly marketed. However, as expected, an additional requirement that such pools not be "primarily offered" to tax-

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DOL sues 5 funds' officials

By Trudy Ring

BOSTON — The Department of Labor has sued fiduciaries of five employee benefit plans, charging they violated the Employee Retirement Income Security Act by allowing Atlantic Financial Management Inc. to invest their assets in a speculative stock, AZL Resources Inc.

These plans and other investors already had sued Boston-based Atlantic Financial in connection with the stock transactions, claiming the investments had caused losses ranging from $100,000 to $2.5 million.

The Labor Department filed one suit against eight officials of Unitrode Corp., Lexington, Mass. They also were fiduciaries of the company's profit-sharing plan. They are George M. Berman, Walter B. Gates, Alan R. Shoolman, Norman Lanstrom, Peter A. Brooke, Arthur O. Choate, Arthur L. Goldstein and Kenneth Hecht.

A second suit names as defendants Robert Half of Boston Inc., Robert Half of Providence (R.I.) Inc., Robert Half of Hartford (Conn.) Inc. and Robert Half of Buffalo Inc. and their sole stockholder, Herbert J. Myers, who also is a trustee of each company's profit-sharing plan. Both suits were filed May 21 in U.S. District Court in Boston.

A Labor Department spokesman said the fact these plans have sued Atlantic Financial has no bearing on the department's case. "The fact is that the investments were improper as far as the department is concerned," he said.

The plans' suits against Atlantic Financial have been consolidated, also in U.S. District Court in Boston, and are in discovery proceedings, said an attorney representing the plans in those cases. The investors began filing suits in 1983.

The Labor Department's suit against the Unitrode officials charges Messrs. Berman, Gates and Shoolman, as members of the profit-sharing committee, breached their fiduciary duty under ERISA by allowing Atlantic Financial to invest in AZL, an oil and gas exploration and development company. The purchase of AZL stock and other investments in the same industry caused a failure to diversify the plan's investments and left it open to the risk of large losses, the Labor Department contends.

This suit also charges all the defendants except Mr. Shoolman, as directors of the company,

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California PERS nears hiring of 7

By Steve Hemmerick

SACRAMENTO, Calif. — California Public Employees' Retirement System trustees have all but signed contracts with seven new money managers for $2 billion or more now managed internally.

All but one of the new managers could sign contracts for performance-based fees.

The trustees also intend to hire two of the seven, First Chicago Investment Advisors, Chicago, and TSA Capital Management, Los Angeles, to provide asset allocation information as well as manage money. Their hiring comes as the retirement system increasingly moves toward systematically setting its allocation of $36 billion in assets, according to Greta Marshall, investment manager for the system.

If contract negotiations are successful, the system will hire five of the seven for equity-oriented management. They are: Fidelity Bank, Philadelphia; Geewax, Terker & Co., King of Prussia, Pa.; Atalanta/Sosnoff Capital, New York; Dimensional Fund Advisors, Santa Monica, Calif.; and Lazard Freres Asset Management, New York.

First Chicago and TSA Capital will serve as balanced managers, providing not only asset allocation information, but also shifting the assets they manage for the system among stocks, bonds and cash. Eventually, they may be given authority to shift assets among other classes as well, Ms. Marshall said.

Each manager will be given between $100 million and $500 million, depending on the size of the managers' current holdings and style of management.

If contracts are signed with all seven, it will bring to 10 the number of outside managers hired by the system. Batterymarch Financial Management, Boston, and Rosenberg Capital Management, San Francisco, previously were chosen as equity managers and given between $300 million and $500 million each.

The system also made Citicorp Investment Management Inc., New York, a discretionary manager for about $500 million. Previously, Citicorp was an adviser for the entire equity portfolio.

The system will seek performance-based contracts with at least six of the seven designated managers. Ms. Marshall noted Dimensional Fund Advisors has been selected as a manager of small-capitalization stocks, some of which are thinly traded. It might be difficult to find a proper benchmark to be used in connection with Dimensional Fund Advisors for use on a performance contract basis, she said.

The only manager so far that has signed a performance-based fee contract with the system is Citicorp. Batterymarch, she said, offered a performance-based contract, but trustees and staff found the fixed fee contract to be low enough and it was the more attractive of the two.

Rosenberg Capital didn't offer a performance-based contract, but the fixed fee contract was priced attractively for the system, she said. She did not give contract figures.

Greta Marshall, investment manager

While seven more managers could be added, the system will not renew its contract with Bankers Trust — Investment Management Group, New York, which is

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N.Y. will use assets to push Irish cause

By Ed Christman

ALBANY, N.Y. — The movement to use pension fund assets to fight discrimination in Northern Ireland gained momentum when Gov. Mario Cuomo signed a bill encouraging using the $28 billion New York Common Retirement Fund for that cause.

In a related development, the New York City Employees' Retirement System successfully filed suit in a U.S. district court to compel American Brands Inc., New York, to place before shareholders a proxy resolution sponsored by the fund that requires the company to adhere to the MacBride Principles.

Comptroller Edward V. Regan opposed the use of retirement assets to fight discrimination in Northern Ireland.

American Brands had claimed that the MacBride Principles, a set of fair employment guidelines, violated Northern Ireland law.

The law Gov. Cuomo signed was opposed by Comptroller Edward V. Regan, the fund's sole trustee.

Mr. Regan had turned back previous efforts by the governor and other elected officials to use the investment of pension fund assets as an economic threat in fighting discrimination in Northern Ireland and South Africa.

The fund has approximately $740 million in holdings of companies with operations in Northern Ireland.

The Common Retirement Fund is the fourth retirement fund known to have some form of a Northern Ireland policy. The others are the New York City Employees' Retirement System, the New York City Teachers' Retirement System, both in New York, and the

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De Rance vs. First Wilshire

Foundation sues manager

By Chuck Paustian

MILWAUKEE — De Rance Inc. and the trustees of its retirement plan are seeking more than $40 million in damages from First Wilshire Securities Management Inc., five of its principals and Morgan, Olmstead, Kennedy & Gardner Inc., all of Los Angeles, alleging fraud, breach of contract and breach of fiduciary responsibility.

De Rance Inc. filed the civil suit in U.S. District Court in Milwaukee. De Rance, a non-profit, nonstock charitable corporation, is treated as a foundation for tax purposes.

Those named as defendants are Noble B. Trenham, Frederick L. Astman, Joseph DiLillo, Sidney A. King and Bruce C. Juell.

In a separate action, the directors of De Rance, Erica P. John and Donald A. Gallagher, who is also a trustee of the foundation, filed suit in a state circuit court seeking the permanent removal of Harry G. John as director and trustee of De Rance. Mr. John, Ms. John's ex-husband, is accused in the suit of waste and gross misconduct.

Mr. John was suspended from his positions of president and treasurer of De Rance on Oct. 15, 1984.

According to the removal suit, Mr. John, founder of the foundation, "had always assumed full internal responsibility for the investment strategy of the De Rance portfolio."

In yet another suit, a federal jury awarded $28.2 million to De Rance May 13 in its claims accusing PaineWebber Inc., New York, and Paul Sarnoff, a vice president of PaineWebber, of trading abuses on gold commodities.

PaineWebber has indicated it will appeal the decision.

According to the suit against First Wilshire and Morgan, Olmstead, De Rance is seeking a claim of $40 million, while Ms. John and Mr. Gallagher, who are trustees of the retirement plan, are seeking a $400,000 claim.

The foundation has about $35 million in assets, excluding investments in two television stations and one radio station. The retirement plan has about $1 million in assets.

Calls to De Rance were referred to Smith & O'Neil, Milwaukee, one of the law firms handling the case for the foundation. Attorneys at Smith & O'Neil declined to comment on the case, which is scheduled to go to trial Dec. 1.

The First Wilshire suit alleges Messrs. Trenham and Astman were hired by De Rance, through Mr. John, as investment managers for the foundation's assets in May 1977.

It was not clear with whom the men were affiliated at the time they were hired.

During the same month, De Rance opened brokerage and investment advisory accounts with Morgan, Olmstead. The suit alleges Messrs. Trenham and Astman became employed by Morgan, Olmstead at that time because they had obtained the De Rance account and for the purpose of using Morgan, Olmstead's status as a registered investment adviser.

The suit also alleges that around Aug. 25, 1980, Messrs. Trenham and Astman became employees and principals of First Wilshire and the firm became the investment adviser for De Rance.

According to a First Wilshire spokesman, the two started First Wilshire in June 1980.

Morgan, Olmstead continued to serve as broker for the accounts.

The retirement plan, started in February 1980, opened a brokerage account with Morgan, Olmstead and an investment advisory account with First Wilshire, both in August 1981.

The other principals of First Wilshire, Messrs. DiLillo, King and Juell, all were named because they all had responsibilities for the De Rance accounts.

According to the complaint, the defendants did not disclose the securities purchased were thinly traded ones and that the market prices quoted were available only for small lots. It further claimed the large positions acquired for the plaintiffs could not be sold at those quoted prices and could not be sold at all without long delays

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Clients cut back on equity under the Lowry system

By Trudy Ring

As the stock market has soared, pension funds following consultant William W. Lowry's investment philosophy have reduced their equity exposure in a disciplined manner.

Mr. Lowry, president of William W. Lowry & Associates, Atlanta, holding company for the pension consulting firm Lowry, Raclin, Harrell & Howerdd, Dallas, has developed a system by which clients adjust their stock holdings in accordance with the price-to-book ratio of the market.

The system is customized for each client, but in general, Mr. Lowry recommends clients be at their maximum equity allocation when the ratio is 1-to-1. In the current market, with the ratio at 1.75-to-1 for the Standard & Poor's 500 stock index, most of Mr. Lowry's clients have reduced their equity allocation to between 55% and 65%.

About 95% of the clients follow this strategy, while another 5% use one more heavily oriented toward equities, he said.

"No two of our 120 clients have the identical, to-the-penny grading system," he said. Mr. Lowry's clients have a total of $24 billion in assets; this includes both pension funds and corporate cash.

This includes between $4 billion and $6 billion invested in mutual funds, another official of the firm said. Almost every client uses mutual funds as part of the strategy.

Mr. Lowry said his system does not mandate radical shifts in equity investments. "At X times

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Real Estate

New space woes hit office market

By Steve Hemmerick

CHICAGO — The office market could be undergoing a structural change that could worsen its current cyclical overbuilding problem, according to Joseph Russo, a division manager for real estate investments with the American Telephone & Telegraph Co., New York, pension trust.

The working age population, increasing for the past several years, has reached its peak, and white-collar employment may not be increasing as fast as it has in the past, he said.

That slowdown could mean it will take longer to fill some partly empty office buildings. According to Coldwell Banker's Office Vacancy Index, the vacancy rate is holding at 16.5% in downtown office buildings across the United States, and hit 22.5% in suburban areas as of March 31.

But Mr. Russo didn't say how great an impact the slowdown in the white-collar population might have on the office market, already suffering from some softening in rents.

However, in a talk delivered at the spring Pension Real Estate Association conference in Chicago, he did say AT&T already is near the top of its target range for office buildings as a percentage of its real estate allocation.

AT&T now has 9% of its total $23 billion plan, or $2.07 billion, invested in real estate, and 58% of that, or $1.2 billion, is in office buildings. The target range is 40% to 60% of the real estate dollars.

The trust, he said, wouldn't buy an office building unless it was a "very selective" purchase of a high-quality building that was fully leased.

In fact, he said, AT&T's focus on making retail investments in the past couple of years has brought down the investment in office buildings a couple of percentage points for the trust.

"So, we might just want to sit back and wait with respect to office buildings," said Mr. Russo.

In any case, he said, AT&T has an immediate target of 10% for real estate, a boost of one percentage point. Most of that amount, he said, could be spent in buying more units this year of the Telephone Real Estate Equity Trust, a $2.1 billion unitized group trust owned by AT&T and the regional telephone companies created by the breakup of AT&T. AT&T owns 40% of TREET.

But TREET, he said, could figure in a significant change this year as well as some other existing real estate assets. He believes AT&T could refinance some of its holdings, taking out cash, although management has not approved that proposal.

Some consultants have said either that interest rates are about low enough, or could soon be low enough to use positive leverage — the use of borrowed money to increase the return on an invest-

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Bechtel lowers target

Real estate commitment now set at 5% of assets

By Steve Hemmerick

CHICAGO — The $1.3 billion Bechtel Corp. defined contribution pension fund has reduced its real estate commitment to the bottom of its target range, 5% of assets, according to Al Kirschbaum, an investment officer for the San Francisco-based company.

Since late 1984, Bechtel has preferred to put new money elsewhere, especially in foreign equities, he said in remarks at the Pension Real Estate Conference held here late last month.

While Bechtel has a 5% to 15% target range for real estate, Mr. Kirschbaum didn't say what the percentage invested in real estate was in 1984, only that the allocation had been reduced.

Part of the percentage reduction, of course, can be credited to the bull equity market and bond market.

But Bechtel officials clearly have taken note of the overbuilding in the office market; Mr. Kirschbaum estimates there is about 1 billion square feet of excess office space nationwide.

The short-term view at Bechtel has been that the company shouldn't commit more assets to real estate.

Market returns have borne this thinking out, he said, because the Standard & Poor's 500 stock index returned about 32% in 1985, the Shearson Lehman Intermediate bond index, about 18% and foreign stocks, about 57%. In contrast, figures from Evaluation Associates Inc., the Westport, Conn., consulting firm, showed open-end real estate funds returned about 10% in 1985 and closed-end funds, about 12%, he said.

But on a long-term view, he noted there is a risk of not being adequately diversified without real estate.

In his view, real estate is kind of an insurance policy against risk.

For example, real estate would fare better than traditional markets in some adverse economic scenarios, including increasing oil prices, high inflation and corporate profit declines, he said.

While Mr. Kirschbaum did not say when Bechtel plans again to increase its allocation to real estate, he did talk about opportunities for investment in 1987 and 1988 in his remarks.

Despite the decline in real estate assets held by Bechtel, Mr. Kirschbaum gave some generally positive remarks about real estate at the spring PREA conference, even seeing the office glut as a plus. It is

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Surplus office space

	1970 to 1987
Total space added (sq. ft.)	3,036,000,000
Total workers added	7,934,250
Total space per worker (sq. ft.)	383
Total space needed: 250 sq. ft. per worker	1,983,562,500
Surplus space (sq. ft.)	1,052,437,500
Absorption in years*	7

* Absorption rate 600,000 employees per year

Source: Bechtel Investments Inc., San Francisco

EDITOR'S NOTE: Aldrich, Eastman & Waltch Inc., Boston, and Jones Lang Wootton Realty Advisors, New York, were omitted inadvertently from this chart, which ran in the May 19 issue.

25 largest real estate managers ranked by equity real estate assets

Rank	Managers	$ millions
1.	Prudential Asset Management Group	5,828
2.	Equitable Real Estate Investment Management	4,383
3.	Copley Real Estate Advisors	3,500
4.	Corporate Property Investors	2,400
5.	The RREEF Funds	2,265
6.	Heitman Advisory	2,100
7.	Aetna Life and Casualty	2,055
8.	Richard Ellis	1,510
9.	Aldrich, Eastman & Waltch	1,500
10.	JMB Institutional Realty	1,500
11.	LaSalle Advisors	1,500
12.	Boston Co.	1,272
13.	Eastdil Realty	1,200
14.	J.P. Morgan Investment	1,133
15.	CIGNA	864
16.	Trust Company of the West	820
17.	Schroder Real Estate Associates	802
18.	Coldwell Banker Capital Management	800
19.	First Chicago Investment Advisors	789
20.	Security Capital Real Estate	745
21.	John Hancock Financial Services	708
22.	Jones Lang Wootton Realty Advisors	650
23.	Wachovia Bank & Trust	648
24.	Alex. Brown Realty Advisors	600
25.	L&B Real Estate Advisors	600
	TOTAL	40,172

Active management promised

GE personnel start firm

By Steve Hemmerick

NEW YORK — Two top officials managing the General Electric Pension Trust resigned in mid-May to open a new real estate investment management firm that will offer the active real estate management style used on the GE Trust.

Resigning after 16 years was Francis X. Tansey, manager of the trust and a senior vice president of General Electric Investment Corp., the GE subsidiary that manages the trust. Also leaving was David Luski, formerly real estate investment manager for the GE trust.

The new firm is Dreyfus Realty Advisors Inc., New York, and it has financial backing from The Dreyfus Corp., New York, a manager of mutual funds with $35 billion in assets, and Lazard Freres & Co., New York, an investment banking firm.

Unlike many other real estate firms, Dreyfus Realty will offer what Mr. Tansey, chief executive officer of the new firm, calls active management. This type of management calls for rotating "in and out of market niches."

He said he thinks it is "foolhardy" to stay in one type of real estate market with only one niche in it because the market at various periods overprices niches.

By moving in and out of niches, he said, you can add return, but he is not market timing "per se."

But moving in and out of niches will mean that pension executives will have to give more freedom for active real estate management if they use Dreyfus Realty, and they can't be as narrow in their restriction of investments as they are for some managers, demanding they invest very narrowly in property, such as buying only fully leased and existing properties with all cash.

Francis X. Tansey has left General Electric Investment Corp. for Dreyfus Realty Advisors

The active management thinking for real estate is used on the GE trust, but it is in some ways unusual because many pension fund executives don't think of real estate as anything that can be managed actively or timed in any way.

Mr. Tansey said he is aware of such thinking, but he said he hopes to change it by convincing fund executives that what worked for GE's trust on real estate can work for them.

Each year, as much as 20% of the GE trust portfolio, including real estate, was turned over, said Mr. Tansey. Simple math, he said, shows in five years the entire portfolio could be turned over.

The track record for the GE trust is good, according to Mr. Tansey, but he wouldn't give any figures. He is depending on his track record with GE, he said, to help sell customers. The trust is virtually managed in-house by GE investment.

Mr. Tansey was asked about his own timing — opening a real estate firm when many fund executives are cautious about real estate and worried about overbuilding. Also, the GE pension trust has 12% of its assets in real estate, what GE officials call a "historic low" for real estate.

But Mr. Tansey said he thinks the country now might be approaching the same kind of historic change as in 1979 when Paul Volker, then chairman of the Federal Reserve Board, began his successful shut down of high inflation rates.

The current tax reform proposal, if passed as is, will cause extraordinary values in real estate to occur, and real estate will take

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Cash Management

Largest changes in cash holdings[1]

Company	Cash and short-term investments ($ millions) 1985[2]	1984[3]	% change '85 vs. '84
10 largest cash portfolios ranked by cash position			
Ford Motor	$5,904	$5,943	−0.7%
IBM	5,622	4,362	28.9
General Motors	5,114	8,567	−40.3
Boeing	3,209	1,595	101.2
Chevron	3,168	3,359	−5.7
Chrysler	2,798	1,700	64.6
General Electric	2,557	2,373	7.8
Exxon	2,474	3,290	−24.8
Sun	2,373	1,070	121.8
AT&T Technologies	2,214	2,140	3.5
10 largest increases in cash and short-term investments			
Ralston Purina	$ 510	$ 54	844.4%
Allied-Signal	1,125	136	727.2
IC Industries	241	47	412.8
Union Carbide	459	96	378.1
Martin Marietta	138	30	360.0
Caterpillar	282	62	354.8
United Technologies	972	225	332.0
Ashland Oil	307	82	274.4
Sara Lee[3]	170	56	203.6
Campbell[4]	405	149	171.8
10 largest decreases in cash and short-term investments			
General Dynamics	$ 13	$ 187	−93.1%
Champion International	19	118	−83.9
Dana	29	134	−78.4
LTV	12	53	−77.4
Weyerhaeuser	40	173	−76.9
Phillips Petroleum	676	1,894	−64.3
PPG Industries	24	64	−62.5
Rockwell International	525	1,268	−58.6
Occidental Petroleum	510	1,195	−57.3
Raytheon	284	658	−56.8

Footnotes:
[1] Top 100 industrial companies according to sales
[2] Quarter ended Dec. 31
[3] Quarter ended Dec. 28
[4] Quarter ended Jan. 26, 1986

Source: Wright Investors Services Inc., Bridgeport, Conn.

Short-term, cash holdings fluctuate

By Barry B. Burr

The change in cash and short-term investment holdings of the largest corporations varied widely over the last year, ranging from a 844.4% increase of Ralston Purina Co. to a 93.1% decrease of General Dynamics Corp.

As a group, the cash and cash-equivalent holdings of the 100 largest industrial companies, as ranked by sales, changed slightly at year-end from the same period in 1984.

In total, $70.8 billion in cash and short-term investments were held by the companies at year end, according to the latest data from Wright Investors Service Inc., Bridgeport, Conn.

The total was up 1.9% from the $69.6 million held in the period the year before. (The year-end tallies include 17 companies whose holdings are reported for periods that ended on dates other than

Referring to the data, Hari Kapadia, Wright vice president, said, "It looks like the smaller the company the bigger the change in cash position, while bigger companies haven't as big a change.

"I don't think a high cash position is a good indication," he said. "It's better to invest it somewhere (in operations) than short-term investments."

A large cash position "can reduce their" return on equity, he added. "A company would get 6% to 7%" investing in certificates of deposit, "whereas it might get 15% from operations."

But he noted the cash position, recorded at a specific time, might reflect a cyclical or seasonal pattern for some companies.

In interviews, corporate cash management executives generally attributed cash increases to sales of assets, or buildups of cash by foreign subsidiaries.

Other cash managers attributed

Service fees rise slowly

Cash management costs increase just 2.7% in 1985

By Barry B. Burr

CHICAGO — The price increases of corporate cash management services at the country's leading regional and money-center cash management banks rose on average 2.7% last year, according to a survey by Treasury Strategies Inc.

This represents a sharp slowing in fee increases from rises of 13.3% in 1984 and 18.3% in 1983.

Also, the survey found banks on average-requiring a 16% increase in compensating balances last year.

Treasury Strategies attributed 12.9% of the increase in compensating balance to make up for the decline in earnings due to lower interest rates, while 2.9% of the increase in compensating balance was due to the increase in fees.

Treasury Strategies, which compiles indexes on cash management fees and compensating balances, surveyed 30 banks, consisting of about one-third money-center banks and two-thirds regional banks, according to Anthony J. Carfang, principal.

Major banks charge their corporate customers for cash management services. The index is based on the fees charged for eight services: wholesale lockbox; income wire transfers; outgoing wire transfers; account reconcilement; cash concentration; disbursement; balance reporting; and account maintenance.

The cash management fee increases represent a composite of the price increases of cash management services at regional and money-center banks.

For money center banks, the survey reported fees rose 2.71%, while for regional banks fees increased 2.84%.

By contrast, in 1984 price increases of regional and money center banks differed widely. Regional bank fees jumped 21.3%, while the prices of money-center banks rose 6.5%, Treasury Strategies reported.

Referring to the latest survey, Mr. Carfang said, "A lot of banks simply didn't raise prices at all."

Cathy L. Rollins, also a Treasury Strategies principal, said the latest price increases reflected general inflation.

In previous years, she said, banks were increasing prices to make the services profitable.

"What we've seen in the past is the effects of the Monetary Control Act, from Fed pricing to bank pricing," Ms. Rollins said, referring to the Federal Reserve System. "Banks took the opportunity to price services to make them profitable.

"Those were one-time, systemic price increases."

"Prices have gone up quite a bit since 1980," Mr. Carfang said.

"Banks have become more aware of prices as the Fed has priced services it sells to the banks."

Now, "prices are somewhat aligned with the cost of services," he said.

The composite fee index, which averages both the money center and regional banks prices, reached 197.96 in 1985, up from 192.6. The composite index began at 100 in 1980.

The regional bank fee index reached 168.8 last year, while the money center bank fee index rose to 227.2. Those indexes began in 1980 at 82.19 and 117.81, respectively.

The composite compensating balance index reached 370.57, up

Continued on page 21

Suits against Fidelity settled

By Chuck Paustian

BOSTON — As part of a settlement in two civil suits filed in U.S. District Court here, Fidelity Management & Research Co. agreed to credit $400,000 annually in advisory fees for a six-year period to its $4.5 billion money market fund.

Fidelity also agreed not to increase its advisory fees to the Fidelity Cash Reserve Fund for a period of five years as part of the settlement.

The settlement is the latest in a number of similar suits brought against mutual fund companies every year.

Corporate investors held about 12% of the fund's shares as of March 31, according to Richard M. Reilly, executive vice president of Fidelity Management & Research.

Both suits were filed by Frank J. Evangelist Jr., a shareholder of the money market fund, in 1981 and 1982.

In his first complaint, Mr. Evangelist alleged Fidelity charged "excessive" fees for the investment management of the fund's assets.

One of Mr. Evangelist's attorneys, Richard M. Meyer, with the law firm of Milberg Weiss Bershad Specthrie & Lerach, New York, said at the time the lawsuit was begun, Fidelity charged an advisory fee based on the fund's income.

He said for the first 5% of return earned by the fund, Fidelity charged a fee of 4%, or 20 basis points. Any return above 5% was charged a 6% fee, or 60 basis points, said Mr. Meyer.

"At the time the complaint was filed, rates were around 17%," said Mr. Meyer. He said at those rates, Fidelity would have received a fee of 92 basis points.

Mr. Meyer said Fidelity voluntarily placed a ceiling of 55 basis points on its advisory fee after the lawsuits were filed.

"Even so, that was considerably higher than what other money market funds were charging at that time," he said.

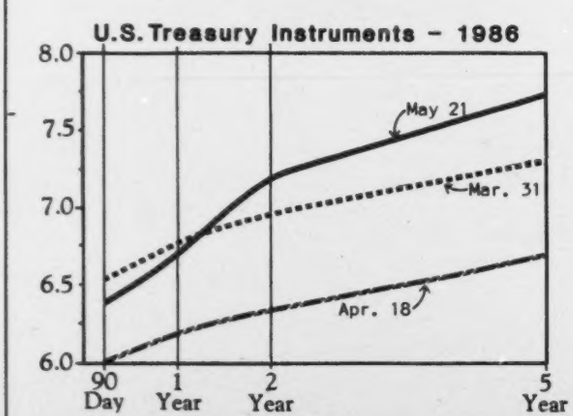
Mr. Meyer said the fees charged by other money market funds, at the time of the suit, ranged between 15 and 50 basis points. He added the majority of those companies' fees fell between 30 and 40 basis points.

One percentage point equals 100

Continued on page 21

PAYDEN & RYGEL INDEX OF SHORT MATURITY ASSETS

SHIFT IN YIELD CURVE VS. FED POLICY



On April 18 the Fed cut the discount rate ½ of 1% to 6½%. This was reflected in the 0-5 year area by a parallel downward shift of 65 basis points from March 31.

After the cut, rates subsequently rose, creating a steeper yield curve. In the period from April 18 to May 21, the 3-month to 1-year Treasuries were up 40 basis points, while the 5-year was up 100 basis points.

Holdings fluctuate . . .

Continued from page 19

declining cash positions, in general, to stock repurchase programs and retirement of debt.

The cash managers said their firms had no specific objective on the amount of cash they typically hold.

Executives said the huge swings in cash holdings — whether up or down — would have no effect on their short-term investing or borrowing strategies or their cash management staffs.

Officials at the firms reporting the two most extreme cash changes — Ralston Purina and General Dynamics, both of St. Louis — were unavailable for comment.

At Union Carbide Corp., Danbury, Conn., Robert Bose, assistant treasurer, said its 378% increase in cash and cash-type holdings was primarily from a $500 million pension fund reversion.

Union Carbide had $459 million in cash holdings at year end, up from $96 million the previous year.

He said the big jump in cash holdings "caused no change in investment strategy." Union Carbide is staying with conservative short-term investments, Mr. Bose said.

He said Union Carbide is using the extra cash to buy back stock as part of its restructuring. A cash position of about $100 million is normal, he said, and noted that the company has no hard-and-fast policy on its amount of cash holdings.

The cash holdings of Occidental Petroleum Corp., Los Angeles, dropped 57.3%, to $510 million from nearly $1.2 billion.

John Zaylor, Occidental assistant treasurer, said the firm accumulated cash in 1984 by issuing debt.

Then in December 1985, it bought back $1.1 billion in preferred stock.

"When we did that our cash position went down to a modest level," he said.

At Allied-Signal, Morristown, N.J., Roger Matthews, assistant treasurer, attributed the 727.2% rise in cash holdings mainly to the sale of 50% of its interest in Union Texas Petroleum Holdings Inc., Houston, last year. It received $1.4 billion in cash and $300 million in Union Texas preferred stock from Kohlberg Kravis Roberts & Co., New York.

"That was the big reason" for the cash increase, he said.

Allied-Signal's cash holdings rose to $1.1 billion from $136 million.

He said the acquisition of Signal Cos. by Allied Corp. last year was a wash as far as cash holdings. He said Signal had $800 million in cash, while Allied spent $990 million in a tender offer for the firm.

"So, the acquisition of Signal didn't really give us any cash," Mr. Matthews added.

He said Allied-Signal is using the cash to call preferred stock, repurchase common stock and to make an acquisition.

In February, it called $272 million in preferred stock. He said it plans to call another $300 million in preferred stock in August and October, the first time it becomes eligible for call.

In addition, he said the firm plans to repurchase common stock. The total amount under the program hasn't been fixed he said.

Last month, it closed a deal to buy a printed circuit board business from Oak Industries Inc., Rancho Bernardo, Calif., for $150 million to $160 million in cash.

He said Allied-Signal had no goal on how much cash to hold.

"We don't have a quantifiable objective in terms of cash on hand," Mr. Matthews said.

"We like to have cash. We don't necessarily do debt financing to raise cash. We don't necessarily build cash for the sake of building cash."

Having the huge influx in cash, he said, "clearly reduced the need for substantial outside financing."

The cash position at United Technologies Corp., Hartford, Conn., increased 332%, to $972 million from $225 million.

Charles B. Preston, senior vice president and controller, attributed the rise to the sale of its Inmont Inc. unit for $1 billion in cash, minus unspecified income taxes.

He said the rise in cash holdings hasn't affected the firm's short-term investment strategy of buying liquid, fixed-income securities through in-house money management.

"Our short-term investment strategy is driven by (interest) rates," he said. "There was clearly no significant change in it as a result of the proceeds from the Inmont sale."

He said the firm would use the extra cash to buy back an unspecified amount of common stock and to pay down short-term debt.

Despite adding more than $700 million in cash to its balance sheet, the firm's current ratio, or ratio of current assets to current liabilities, changed slightly, improving to 1.7 from 1.6.

"It takes quite a bit to change it," Mr. Preston said of the current ratio, "and it isn't very meaningful."

At IC Industries Inc., Chicago, the accumulation of cash enabled the company to reduce its short-term borrowings by $127 million and eliminate its commercial paper program. At the end of the year, it had no bank debt outstanding.

Last year, the company sold 10 operations, generating $400 million in cash, including $110 million from the sale of 1,558 miles of track on its Illinois Central Gulf Railroad. ■

Questionnaires past due for upcoming directory

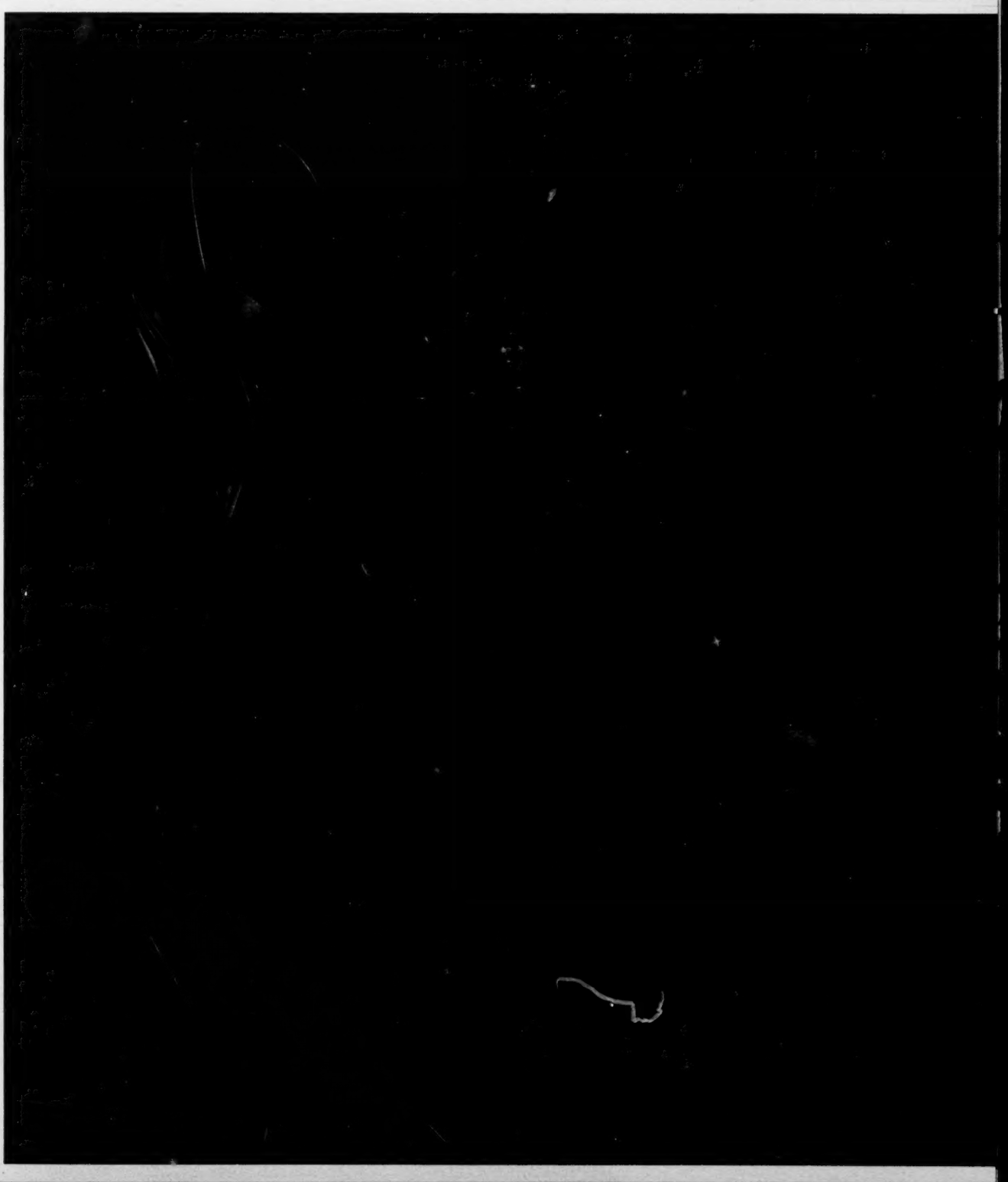
Questionnaires for *Pensions & Investment Age*'s 1986 Cash Management Directory were due June 5.

Any organization providing cash management services in the United States or Canada that hasn't sent in a questionnaire for the directory should return it immediately.

If you have any questions, please contact Carol Wiley, directory coordinator, at (312) 649-5486.

The directory, to be published July 21, is the only known publication of its kind. It will profile the cash management services of banks, service providers, short-term investment managers, as well as national and regional corporate cash management associations.

Also, the directory will profile firms offering treasury workstations, cash management microcomputer software and data bases.



Endowments & foundations

Foundations prepared for market downturn

By Trudy Ring

The nation's 10 largest foundations show little interest in investments touted as means to lock up gains made in the financial markets in recent years.

Instead of adopting portfolio insurance or dedicated bond portfolios, officers of the top foundations look for the discipline of their current investment policies to carry them through any downturn.

"We think about a lot of things, but we are fairly risk-averse now," said Jack Church, vice president and chief investment officer of Glenmede Trust Co., Philadelphia, which is trustee and investment manager for the $2.1 billion Pew Memorial Trusts, also of Philadelphia. "We tend to do better in down markets than up markets anyway."

"We don't have a specific forecast that the markets will go down," said Jack Meyer, treasurer of the $1.5 billion Rockefeller Foundation, New York. "If our managers see a downturn coming, they will take appropriate steps."

Locking up gains is "a negative approach, in my opinion — you're giving away future gains," said Kenneth Herr, treasurer of the $1.3 billion Andrew W. Mellon Foundation, New York. "We believe our investments will continue to do well."

Officials of the $2.5 billion John D. and Catherine T. MacArthur Foundation, Chicago, have looked at portfolio insurance, but are not planning to use it. "We believe if we just ride with the market over an extended period of time, we will do OK," said Philip Grace, treasurer.

John English, vice president and chief investment officer of the $4.5 billion Ford Foundation, New York, noted portfolio insurance is the latest fashion in investing, but said the foundation's basic investment strategy will protect it well enough.

"We are long-term investors, and we recognize that markets are cyclical," he said. "We're very conservative. We're not great risk-takers. The thing that we're attempting to do is protect our income stream" — interest and dividends rather than capital gains.

At least one small charitable fund, the $4.3 million Tom and Valley Knudsen Foundation, Los Angeles, put all its assets into a dedicated bond portfolio last year to pay bequests for 15 years, then expire with a zero balance (*Pensions & Investment Age*, May 13, 1985). However, the larger foundations aspire toward perpetuity.

"My job is to create that 5% that we're going to give away," Mr. English said, referring to the percentage of assets foundations are required to pay out each year. Principal should be preserved so the foundation's work can be carried on indefinitely, he said.

Most of the top 10 foundations would not provide figures on their investment perfor-

Continued on page 27

10 largest foundations

	($ mils.)
Ford Foundation	$4,500
J. Paul Getty Trust	2,800
MacArthur Foundation	2,500
Pew Memorial Trusts	2,100
W.K. Kellogg Foundation	1,900
R.W. Johnson Foundation	1,800
Rockefeller Foundation	1,513
Lilly Endowment	1,467
A.W. Mellon Foundation	1,342
Kresge Foundation	936

Source: Asmas provided by the Foundation Center, New York. Figures updated by Pensions & Investment Age.

Photo by T. Charles Erickson, Yale

At Yale University, officials are internally managing some fixed-income investments

Yale sees promise with internal route

Investments office now managing a $200 million fixed-income portfolio

By Brad Rudin

NEW HAVEN, Conn. — Yale University's leap into semipassive internal management of its $1.3 billion endowment's fixed-income portfolio has shown promising results in its first nine months.

While under the management of the university investments office, the $200 million portfolio has returned between 25 and 50 basis points more than the Shearson Lehman Government/Corporate bond index, said David F. Swensen, investments director.

"We were happy we were able to do that," Mr. Swensen said.

Mr. Swensen declined to specify whether more of the $1.3 billion endowment would be managed internally in the future. "It's certainly not something we're ruling out," he said.

Neither internal nor external management has the unanimous endorsement of the top university endowment funds. Harvard University's $2.7 billion endowment is managed internally, while external managers look after Princeton University's $1.7 billion fund.

The current bull market encourages internal management, said John K. Goodrich, president of Colonial Consulting Corp. Inc., New York.

"This time in the market cycle you see a lot of people starting to say that an index return is terrific," Mr. Goodrich said. "It's when the market tanks that people start to reconsider whether it is a smart move."

At Yale, $327 million in assets — the $200 million fixed-income portfolio, $32 million in equities, and $95 million in real estate — are managed internally. External managers run a $12 million real estate portfolio and a $979 million equity investment.

Miller, Anderson & Sherrerd, Philadelphia; Wells Fargo Investment Advisors, San Francisco; Lord, Abbett & Co., New York; General American Investors Inc., New York; and Analytic Investment Management Inc., Irvine, Calif., are the primary domestic equity managers.

International securities are managed by Rowe Price-Fleming International Inc., London; State Street Bank and Trust Co., Boston; and through The Common Fund, Fairfield, Conn.

The investments office, housed in a Georgian building that once was a fraternity house, is not equipped to manage an active equity portfolio, Mr. Swensen said.

Flanked by the Elizabethan Club and the School of Music, the office stands as an outpost of Wall Street on this Gothic campus.

Mr. Swensen, an alumnus of Salomon Brothers Inc. and Shearson Lehman Brothers Inc. said the eight-member investment committee will review the fixed-income portfolio's performance after a year.

Between 30 and 40 issues, governments and agencies, make up the portfolio, said Patricia M. Gammon, the senior financial analyst at the investments office.

The office tries to mirror the Shearson Lehman bond index's breakdown between the Treasury and agency issues, which is 83% and 17%, said Ms. Gammon, a liberal arts graduate of the University of Pennsylvania who is studying to become a chartered financial analyst.

"Our basic goal with the funds we have inside is to produce a small, but consistent increment over the market," said Mr. Swensen, who holds a doctorate in economics from Yale.

Mirroring the Shearson Lehman bond index will give Yale an edge over portfolio managers who use

Continued on page 30

Smaller endowments aided by Common Fund

By Joanne Friedrick

Before joining The Common Fund, Valparaiso University had one money manager and was contemplating adding a second one. Now, through the equity and short-term funds offered by the Fairfield, Conn.-based "manager of managers," it has access to 14 different management firms.

Like many other schools whose endowments are less than $100 million, the Valparaiso, Ind., institution has found greater investment diversity and easier access to top firms through The Common Fund.

Fred Kruger, Valparaiso's vice president for business affairs, said the school switched its $30 million endowment from David L. Babson & Co. Inc., Boston, two years ago.

While the school's eight-year relationship with Babson worked well, Mr. Kruger said many small colleges "can play amateur night" when selecting how and with whom their endowments are invested.

The tendency to give money to the local banker who sits on the college board is still very much in practice, he said.

The advantage of moving to The Common Fund, he said, is access to multiple advisers and being pooled with colleges, not pension funds. While Valparaiso stayed away from The Common Fund in its infancy "more people are seeing it's not a fly-by-night organization," Mr. Kruger said.

The Common Fund, which was started in July 1971, was created through the efforts of 10 larger colleges and universities as a way to enable colleges with smaller endowments to get access to better managers.

The fund began with more than 60 participating funds. George F. Keane, president of The Common Fund and its executive officer from the beginning, said "it was an idea whose time had come."

Valparaiso's Mr. Kruger has watched The Common Fund's track record and cited its 10-year

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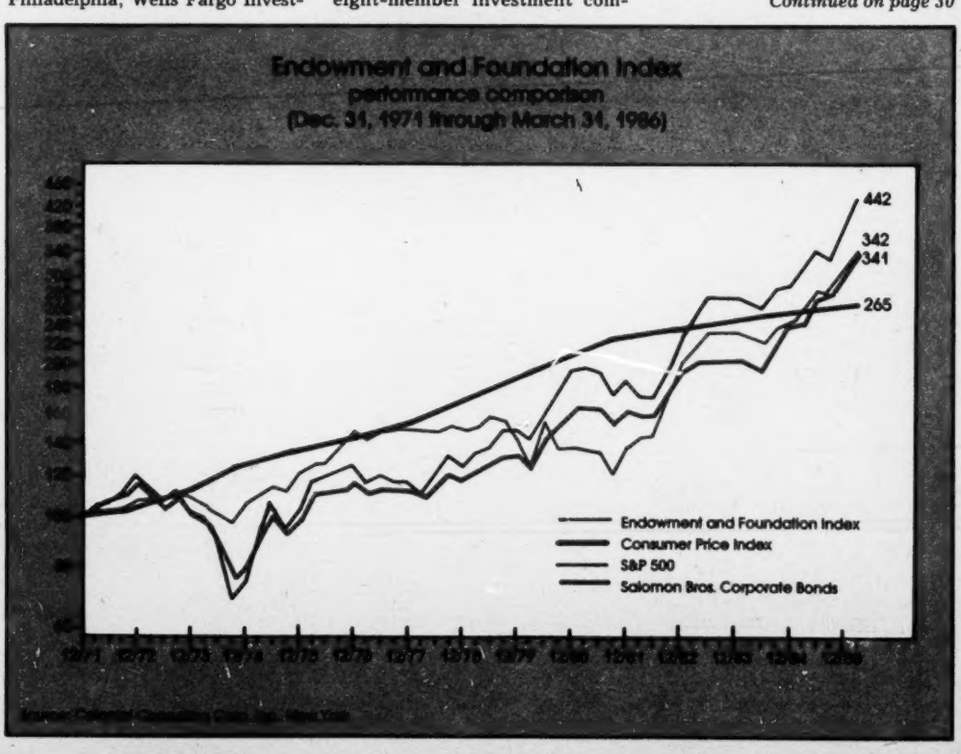


Foundations . . .

Continued from page 25
mance, but officials generally said returns have been satisfactory.

"We've participated in the rally since 1982," said Joseph Kearns, vice president and treasurer of the $2.85 billion J. Paul Getty Trust, Los Angeles, which was set up that year, after the settlement of Mr. Getty's estate.

"Obviously, anybody holding shares in an equity portfolio would have benefited," said Thomas Herbert, vice president and treasurer of the $938 million Kresge Foundation, Troy, Mich.

Those that did provide performance figures were the Ford Foundation; the $1.4 billion Lilly Endowment, Indianapolis; and the Pew Trusts.

The Ford Foundation had a compound annual return of 13.7% on total investments for the five years ended Sept. 30, the close of its fiscal year.

The foundation's return has improved in recent years, with total assets moving past $4 billion for the first time since 1964.

The Lilly Endowment returned 15% on an annualized basis for the five years ended Dec. 31, including stocks and bonds, and the Pew Trusts had a compound annualized return of 15.4% for the same period on the manageable portion.

Pew Trusts' investment officials exclude **Sun Co.** stock from the manageable portfolios and therefore from the performance figures, but the Lilly Endowment includes returns on **Eli Lilly & Co.** stock in its overall performance figures. In both cases, the families that owned those companies were the people who set up the foundations.

About 60% of the Pew Trusts' assets are in Sun stock, while 95% of the Lilly Endowment's assets are in Eli Lilly stock.

For the five years ended Dec. 31, the index off approximately 40 foundations surveyed by Colonial Consulting Corp. Inc., New York, had a compound annual return of 14.2%, said John K. Goodrich, president. Colonial Consulting does not identify the funds in its data base.

Most of the top 10 foundations use investments typical of such funds — actively managed stocks and bonds, cash and short-term holdings, and small allocations to venture capital or real estate equity. However, a few vary.

The Lilly Endowment, Pew Trusts, the $1.9 billion W.K. Kellogg Foundation, Battle Creek, Mich., and the $1.8 billion Robert Wood Johnson Foundation, Princeton, N.J., are the members of the top 10 that are invested heavily in one stock. The Lilly family's wish was that the foundation hold the stock as long as possible, said William Goodwin, treasurer and secretary.

Stock dividends and the gains on fixed-income instruments generally have been sufficient to pay bequests, Mr. Goodwin said. The fund's last sale of Eli Lilly stock was in 1972 when it sold 3 million shares; it still holds nearly 25 million shares.

Now, however, the stock's price has gone up so much dividend yields are down to about 2.5% annually, too little to pay the required 5%, so more sales may be necessary, he said.

But the fund's officials have no doubt the stock is a sound investment: "Over the long run, the performance of Lilly stock will be much better than the Standard & Poor's 500," Mr. Goodwin said.

Kellogg Co. stock has been a good investment for the Kellogg Foundation, said William Fritz, vice president-finance and treasurer. About 65% of the foundation's assets are in the stock, but the foundation is under no requirement to hold it and assesses the prudence of the stock investment at least annually, Mr. Fritz said.

"By almost any measurement, it's a strong company and it has proven itself time and time again to be a sound investment," he said.

Kellogg was selling at slightly more than $30 a share when the foundation sold 15 million shares to the company a little over a year ago, Mr. Fritz said. The foundation made the sale to comply with federal tax law prohibiting a foundation from holding more than 35% of a corporation. Now, even after a two-for-one stock split, Kellogg stock is up to $48 a share, he said.

He did not have specific figures on other food stocks, but noted several of them benefited from being takeover candidates.

The remainder of the foundation's assets are divided almost equally between diversified equities and fixed income, Mr. Fritz said. Dividends and interest have been sufficient to pay bequests, but foundation officials now are considering selling some of the diversified holdings to capture capital gains, he said.

He also said stock prices have risen to the point that dividend yields are insufficient to make the 5% payout. This means some downturn in the market, if it didn't reach the point that dividend payments stopped, would not be entirely a bad thing, Mr. Fritz said. "All it would do would be to take some of the pressure off that 5% payout," he said.

He added the nine managers running the diversified portfolios are developing plans to deal with a market downturn.

The nine, hired last summer after the Kellogg stock sale, are First Manhattan Capital Management, Roanoke Asset Management, Morgan Stanley Asset Management Inc. and Neuberger & Berman Pension Management, all of New York; Beutel Goodman Capital Management Ltd., Houston; Lieber & Co., Harrison, N.Y.; Jundt/Capen Associates, Minneapolis; Northern Capital Management Inc., Madison, Wis.; and Strong/Corneliuson Capital Management Inc., Milwaukee.

The Robert Wood Johnson Foundation, endowed with 12 million shares of **Johnson & Johnson** stock in 1975, has been selling shares as necessary to gain income, said William Walsh, vice president and treasurer. About 65% of the foundation's assets are in the stock, the rest in fixed income.

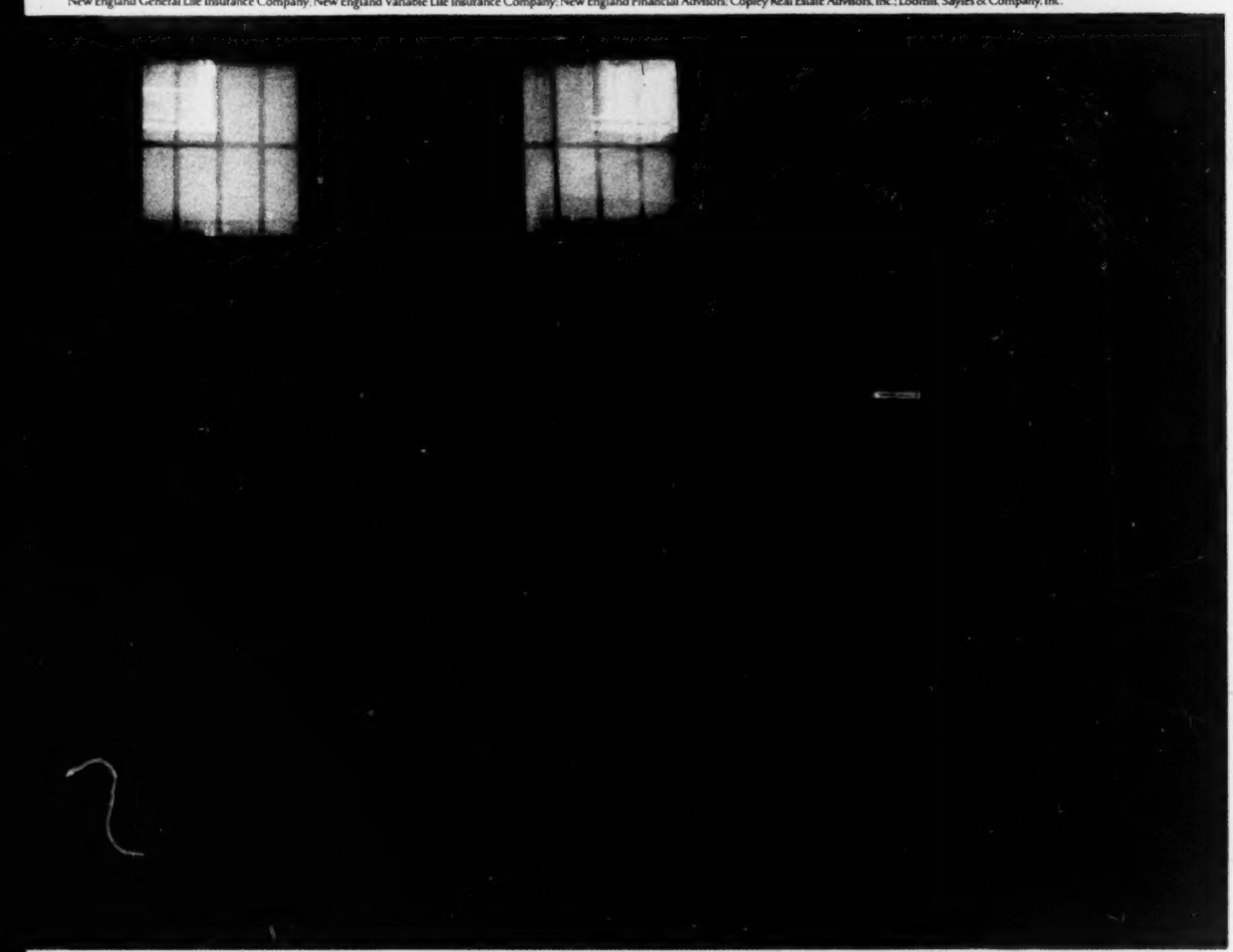
The Getty Trust once was heavily in **Getty Oil Co.** stock, but that was sold to Texaco Inc., White Plains, N.Y., when Texaco took over Getty, Mr. Kearns said.

Until about two years ago, the MacArthur Foundation's investments were limited to **Bankers Life & Casualty Co.** stock and real estate, Mr. Grace said. Now, the real estate allocation remains large — about 38% of assets — but the Bankers Life stock has been sold and the proceeds invested in index funds. The MacArthur Foundation is one of the few charitable funds to use passive management.

"We find that most of the statistics we see show that over a specific period of time, the indexes tend to outperform the individual (active) managers," Mr. Grace said. Also, index funds are a way to enter the market conservatively with large amounts of money, he said.

Wells Fargo Investment Advisors, San Francisco, runs an S&P 500 stock index fund for the foundation, while Mellon Bank, Pittsburgh, handles a Shearson Lehman Government/Corporate bond index fund. Mr. Grace would not provide the breakdown between stocks and bonds, but said the total index funds represent all the assets not invested in real estate. ■

New England General Life Insurance Company; New England Variable Life Insurance Company; New England Financial Advisors; Copley Real Estate Advisors, Inc.; Loomis, Sayles & Company, Inc.



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Five largest endowments

University	Endowment/market value - 1985 ($ billions)	Type of management
Harvard	$2.7 (6/30)	internal
University of Texas	2.6 (12/31)	mostly internal
Princeton	1.7 (12/31)	external
Yale	1.3 (6/30)	mostly external
Stanford	1.1 (12/31)	mostly external

Source: National Association of College and University Business Officers, Washington, and *Pensions & Investment Age*.

Yale sees promise . . .

Continued from page 25
an active approach, Mr. Swensen said. "We expect we will be outperforming many of the active managers by outperforming the market."

The former manager of the fixed-income portfolio, Fischer, Francis, Trees & Watts Inc., New York, earned a 25.2% return in the fiscal year ended June 30, 1985, compared with the Shearson Lehman bond index return of 28.7%.

He declined to say how long Fischer, Francis, Trees & Watts worked for Yale or how much it charged. "This was a decision that was independent of portfolio performance."

Yale decided "the most cost-effective way is to do it internally," Mr. Swensen said.

Active fixed-income managers have to overcome their transaction costs before they can stand on an even basis with managers who employ a passive strategy, Mr. Swensen said. "The active managers are out there hurting their costs relative to the passive manager," he said. "They will not do as well because of price pressure and trading activity."

As practiced by the Yale investments office, passive management is not a buy-and-hold strategy. The staff, using a computer program, balances the portfolio at the end of every month so it matches the changes in the Shearson Lehman bond index.

Although convinced Yale is on the right track with its decision to manage fixed-income internally, Mr. Swensen said the approach has limited application.

Many institutions cannot afford to hire money managers, he said. "There is a corporate culture that makes it difficult to pay market wages with (Wall) Street experience."

Return on domestic equity investments was 29% in fiscal 1985, the Yale annual report said. Investments in the stock market accounted for 73.8% of the endowment on June 30, while debt issues composed 18.1% of the asset mix. Real estate investments accounted for 8.1%.

The annual report also noted the fund's share of fixed income, $189.9 million June 30, fell to 18.1% from 22.6% in 1984.

Yale's bias toward equity is based on the assumption that stocks will perform better than bonds in the long term, Mr. Swensen said, adding other types of assets are used to reduce the volatility of the investment's return.

"The idea behind our approach to equities management is that we have a core portfolio that replicates the index," Mr. Swensen said. Wells Fargo manages that portfolio. He said in the past few years, the endowment has been several hundred basis points above the index.

Because university policy limits spending from endowment income to 4.5% of the fund's total market value, Yale has not been dependent on short-term stock market gains, Mr. Swensen said.

The size of Yale's endowment gives it access to brokers who supply information about the bond market in the hope of getting some of the

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Dynamic hedging for Deere

By Trudy Ring

MOLINE, Ill. — The $2.3 billion Deere & Co. pension fund, one of the nation's 200 largest, has adopted dynamic hedging, but with shorter-term goals than most of the funds using the technique.

Deere is applying the strategy, often called portfolio insurance, to guard its $1.8 billion equity allocation against losses until a long-term asset allocation study is completed, said Carl Liebscher, director of investments. The study is expected to be completed early next year, he said.

More often, funds using portfolio insurance commit for at least two years.

Carl Liebscher, Deere's director of investments

"Our purpose was short term, driven by the fact that we have had a change in actuaries," Mr. Liebscher said. "We are going to do some studies to better define our long-term asset mix and, until we have those completed, we determined that we would like to enter into that type of (portfolio

Continued on page 59

Oil firms tap annuities after plan terminations

By Marci Baker

Following Union Carbide Corp.'s lead, Exxon Corp., New York, will tap a new kind of annuity contract as part of its plans to withdraw more than $1 billion in surplus pension assets through the spinoff/termination of its $5.2 billion U.S. defined benefit plan.

At the same time, Phillips Petroleum Co., Bartlesville, Okla., which will recapture more than $400 million before taxes through a spinoff/termination, might use the new-style contract as well.

Exxon and Phillips are two of three oil companies to announce spinoff/terminations in the past month. Ashland Oil Corp., Ashland, Ky., will recoup between $200 million and $300 million.

Unlike the other two oil companies, however, Ashland plans to establish a floor offset plan, in which its future defined benefit liabilities will be paid for through an employee stock ownership plan and a newly created defined benefit plan (*Pensions & Investment Age*, June 9).

Analysts and other pension observers expect other oil companies will move to terminate their pension funds to get back excess assets for corporate use.

Strong performance in both the stock and bond markets has led to significant overfunding in many oil company pension plans, while the drop in oil prices has put pressure on corporate earnings.

"Any industry under earnings pressure would be looking at pension fund terminations right now," said Donald Weeden, managing director in charge of Morgan Stanley & Co.'s pension consulting group in New York.

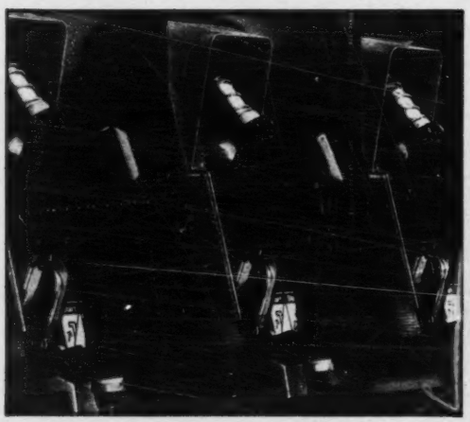
"Oil companies are looking for ways to conserve capital. The (withdrawal of surplus pension assets) can be a tax efficient way to raise money."

Eugene Nowak, an oil analyst at Dean Witter Reynolds Inc., New York, cited Unocal Corp., Amoco Corp., Amerada Hess Corp. and Standard Oil Co. as possible candidates for pension fund terminations.

"We're not looking for a stampede," Mr. Nowak said. "But we expect other fund terminations will develop soon."

Exxon is negotiating with The Prudential Insurance Co., Newark, N.J., and Equitable Life Assurance Society of the United States, New York, and ultimately will select one to establish its annuity program, said Allen Harrison, Exxon's assistant treasurer.

Under the annuity contracts, Exxon will continue



to manage the assets backing its liabilities to the 40,000 active and 30,000 retired participants in the plan, with the insurance company guaranteeing payment of those liabilities.

The insurance company receives a fee to compensate for the risk it is taking to provide the guarantee.

"This is the direction we're taking in negotiations

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Inside:

CORPORATE FINANCE: Major investment banking firms are putting their money where their mouths are — funneling their own capital into the leveraged buy-out deals they have arranged — page 13.

CASH MANAGEMENT: Money management companies aren't getting the corporate short-term investment business. Instead, corporate cash reserves are being given to small, in-house staffs for investment purposes — often because they outperform the outsiders — page 45.

SOFT DOLLARS: Quotron System Inc.'s 1000 system for research data is among the systems that meet the Securities and Exchange Commission's new criteria for purchases that can be made with soft dollars — page 41.

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Fiduciary liability costs soar

Funds to insure each other

By Steve Hemmerick

SACRAMENTO, Calif. — California's two largest state pension funds and other public funds are being forced by skyrocketing fiduciary insurance costs to insure each other by setting up their own reciprocal insurance company.

Larry Kurmel, chief executive officer of the $16 billion California State Teachers' Retirement System, said forming such a company to provide fiduciary insurance is under study and is likely and feasible.

The company could be the first established by public pension funds. Mr. Kurmel said he did not know of any other state funds setting one up. Warren G. Brockmeier, vice president-risk management services at The Wyatt Co., Chicago, said although some reciprocal carriers are being established that include fiduciary liability coverage, he did not know of any such entities established by public pension plans.

"Is this being done elsewhere? To a limited degree, we are involved in other projects involving the establishment of directors and officers liability insurance carriers, and some of them are also including fiduciary liability coverage in what they are forming," Mr. Brockmeier said. "That is essentially because of the lack of availability of coverage in the commercial markets."

But as to public funds forming the companies, he added, "No, I haven't heard of them." He added he was not familiar with what is happening in California.

Private insurers have miscalculated fiduciary insurance risks by lumping them together with directors and officers insurance and errors and omissions insurance, Mr. Kurmel said.

"The primary insurers have not done a precise job of risk quantification (for fiduciary insurance). Based on the research we have done so far, there is healthy opportunity for reducing the premium cost, and that means a saving of dollars for our beneficiaries and for taxpayers," Mr. Kurmel said.

He said his fund has hired Robert Quinn, former California state insurance commissioner, as a consultant on setting up such a company, and hired the actuarial firm Warren, McVeigh and Griffin, Newport Beach, Calif., to do the "numbers crunching."

Public pension fund officials from other California funds and those in "at least a dozen other states" have expressed an interest in becoming members of a proposed reciprocal company, Mr. Kurmel said. He would not identify any.

A reciprocal is an insurance organization in which subscribers insure each other by pooling their individual risks and sharing them proportionately in a non-profit operation. Such companies, which manage their own money, are increasing in number, according to insurance experts.

Part of the reason for the interest, Mr. Kurmel said, is that some California funds, which he would not name, already are going "bare," that is they have no fiduciary insurance.

Another reason may be that the problem developed so quickly.

Continued on page 60

The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

***P&I Age* May indexes**

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	5.3	18.8	35.7
Russell 3000[1]	5.2	19.7	36.1
Ryan Index[2]	−2.5	9.1	22.5
Shearson Lehman Gov't./Corp.[2]	−2.0	6.8	18.4

Source: Rogers, Casey and Barksdale Inc.

[1]Frank Russell Co. [2]Fixed income.

Binzel retiring July 1 as Amoco fund chief; takes two other jobs

By Chuck Paustian

CHICAGO — Philipp W. Binzel, assistant treasurer-investments and overseer of the $2.3 billion pension fund at Amoco Corp., Chicago, is retiring effective July 1.

Mr. Binzel said his decision to opt for early retirement was based on personal reasons.

"Instead of working 80% of the time, I want to work 20% of the time," he said. "It's really not that early. I'm 63."

Mr. Binzel's responsibilities at Amoco included overseeing both the asset and liability sides of the pension fund as well as supervising the company's 14 external investment managers and the management of the $500 million in-house portfolio.

He also was responsible for the corporation's short-term borrowing and investing. Amoco has $900 million in short-term investments.

Mr. Binzel said he has accepted positions to work with two other organizations after his retirement: serving on a new, three-member employee benefit advisory committee established at Continental Illinois National Bank and Trust Co., Chicago and a member of the board of trustees of the $600 million American Red Cross pension fund, where the assets are managed externally.

Richard Powers, vice president at Continental, said Mr. Binzel will serve on the committee with two other Chicago-area executives, Michael E. Murphy, director, executive vice president and chief financial and administrative officer from Sara Lee Corp. and H. Robert Powell, senior vice president and chief investment officer from Combined International Corp.

"The concept is involving three non-director, non-employee individuals to give us an independent assessment of our qualified employee benefit trusts," said Mr. Powers.

He said the committee will review the performance of the three trusts, with a total of $260 million in assets, and submit quarterly reports.

Mr. Binzel said executives have not decided who will replace him, but expects the decision to be made shortly.

In addition, Southern Company Services Inc., Atlanta, has not found a replacement for Ormond Frazier, the assistant treasurer who retired on Aug. 31.

Mr. Frazier was responsible for supervising the management of the $1.6 billion pension fund, all of which is managed externally, and aiding in the establishment of cash management policy.

"The primary function of this position is the pension fund

Philipp W. Binzel

end of the business. The cash management policy setting is secondary, but it's also an important responsibility," said Steve Spears, human resources planning coordinator.

The cash management operation is run through the New York office. Southern Company Services has $650 million in short-term investments.

During the interim period, William Maner, vice president for finance and treasury and Richard T. Benton, staff financial analyst, are handling Mr. Frazier's responsibilities.

Mr. Spears said Southern Company Services decided to delay filling the position until the new chief financial officer, Larry Westbrook joined the company. Mr. Westbrook replaced George B. Campbell, who retired.

Mr. Westbrook joined Southern Company Services Jan. 3, leaving Georgia Power Co., Atlanta, where he was senior vice president and secretary.

"The decision was made in the financial organization that rather than filling the (assistant treasurer's) position prior to the new chief financial officer coming on board, it would be delayed so he could have some input in the decision," Mr. Spears said.

Raymond's ESOP involved

Firm restructures debt

By Barry B. Burr

HOUSTON — Raymond International Inc. is working with its bankers to restructure $200 million in debt, lent originally in 1983 to finance the leveraged buy-out of the firm by an employee stock ownership plan, a management group and Kelso & Co.

The buy-out left the ESOP as Raymond's only retirement plan after the firm terminated an overfunded pension plan to capture a $30 million reversion to help finance the $219 million takeover.

Raymond's fortunes have fallen with the sharp turndown in the energy and construction industries, putting in jeopardy the value of the ESOP shares and its ability to meet its debt obligations.

The ESOP owns the majority of Raymond, according to Joseph Schuchert, managing director of Kelso, New York, which participated in the buy-out.

He said the ESOP owns 65% of the shares, or 80% of the value of the company. He said Kelso owns 5% to 8% of Raymond. Raymond's top management apparently owns the remainder.

Speaking about the ESOP as the only retirement plan, an executive who asked to remain unnamed said, "I don't believe in that philosophy of putting all your eggs in one basket."

But Mr. Schuchert countered, "The fact that they had an ESOP did not in any way prejudice their retirement."

Raymond officials were unavailable for comment on the ESOP.

Mr. Schuchert defended the ESOP arrangement against criticism of being the only retirement vehicle. "That's nonsense," he said. "That's always the case if something doesn't work out."

Yet he also said, "ESOPs aren't retirement plans."

He said Raymond had intended to re-establish a defined benefit plan after the buy-out, before falling on hard times. At the time, he said, the Pension Benefit Guaranty Corp. prevented corporations from immediately re-establishing such plans after terminating overfunded ones. But Raymond's business collapsed while waiting a few years to set up another defined benefit plan.

Before issuing new termination guidelines in 1984, the PBGC was delaying approval of reversions to corporations intending to re-establish defined benefit plans.

Mr. Schuchert said, "There is little or no diminution in the retirement benefits these people got." He noted accrued benefits up to the buy-out were guaranteed by insurance annuities, as required by the PBGC.

He was unclear, however, about the future benefits from the ESOP and how the value of its shares has been affected by Raymond's troubles.

"In five years if it is still struggling and they don't put in a defined benefit plan, the pensions would be affected."

Officials at Houlihan Lokey Howard & Zukin Inc., Los Angeles, which values the Raymond shares annually for the ESOP, declined to comment. The ESOP participants are apparently non-union employees.

Raymond announced a financial restructuring proposal in March with the consortium of eight banks, led by Manufacturers Hanover Trust Co., New York, and Bank of America, San Francisco. Among the banks participating in the consortium is Texas Commerce Bank, Houston.

Bank of America and Texas Commerce officials declined to comment. Officials at Manufacturers Hanover were unavailable.

The debt restructuring agreement hasn't been completed, according to Rae Hunt, Raymond's manager-corporate communications.

"At this point nothing has been finalized," she said.

As part of the agreement, Raymond would be split into two sep-

Continued on page 59

Carpenters revamp lineup

By E[illegible] Christman

NEW YORK — Officials of the approximately $700 million New York City Carpenters pension fund have restructured the fund's investment manager lineup, reportedly hiring six, terminating three and retaining two managers.

Fund officials would not comment on the changes, but sources said among those hired were Oppenheimer Capital Corp. and Dillon, Read Capital Inc., both of New York, for equity management; and Lowe, Brockenbrough, Tierney & Tattersall, Richmond, Va., and Investment Advisers Inc., Minneapolis, for fixed income.

The other two managers reportedly were selected from these finalists: Shields Asset Management, White Plains, N.Y.; Loomis, Sayles & Co., Boston; Hutton Capital Management, New York; and Century Capital Associates, New York.

The amount assigned to the new managers was not revealed.

Sources confirmed M.D. Sass Investors Services Inc., New York, was terminated in the move.

Shearson Asset Management Inc., New York, was among the three firms terminated, an official there confirmed. Sources said Stein Roe & Farnham, Chicago, also was dropped, but a company spokesman refused to comment.

The restructuring represents a change in strategy; previously, the fund's managers all were believed to be balanced.

Sources said the restructuring affects the union's two largest (of three) retirement plans — the pension fund and annuity fund.

Thomas L. Pulling, chairman of Shearson's investment management unit, said his firm will be terminated effective June 30 in a move that "had nothing to do with performance."

"Our performance was first class. I would have to assume (the termination) was because of the circumstances cited in the article" (*Pensions & Investment Age*, April 28).

The article detailed a dispute between the national Carpenters' union in Washington and American Express Co., the New York-based parent of Shearson.

The union charged that American Express built a credit card facility in Greensboro, N.C., without allowing union contractors to bid for the job. Patrick J. Campbell, general president of the union, had urged local union pension funds to avoid using the services of American Express Co. and its subsidiaries.

Pension fund officials were assisted in the restructuring by Investment Performance Services Inc., Savannah, Ga. Herbert Skinner Jr., a principal, referred all questions to the fund trustees. ■

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Master trust

Profiles of U.S. banks with master trust and custodial assets of $1 billion or more begin on page 24.

Master trust use on rise

Major trustee banks' share of market stays steady

By Trudy Ring

More pension funds than ever are using master trustees, while major master trust banks' share of the market is holding just about steady.

In addition, most pension sponsors are paying their master trust fees from plan assets rather than from corporate coffers, and few are paying in soft dollars.

In 1985, 70% of pension funds with assets of $10 million or more had a master trustee, according to Greenwich Associates, Greenwich, Conn. The firm interviewed more than 10,000 companies in October, said Rodger Smith, partner.

The percentage has grown each year since the beginning of the decade. It was 66% in 1984, 64% in 1983, 57% in 1982, 54% in 1981 and 49% in 1980, Mr. Smith said. "Clearly, the total use has been growing as the complexity of pension funds has been increasing," he said.

The use of master trustees is most prevalent among the largest funds. In 1985, 89% of funds with assets of more than $1 billion used a master trustee, Mr. Smith said.

Among other fund sizes, the percentage using master trustees was:

$501 mil. — $1 bil.	86%
251 — 500 mil.	84
201 — 250 mil.	81
151 — 200 mil.	77
101 — 150 mil.	64
51 — 100 mil.	61
41 — 50 mil.	53
31 — 40 mil.	52
21 — 30 mil.	60
20 mil. or less	58

Also, among the top 200 of the Fortune 500 companies, regardless of pension fund size, 90% use a master trustee, Mr. Smith said.

The banks with the biggest share of U.S. master trust business are mostly those that held that distinction last year, according to a *Pensions & Investment Age* survey. Among the 30 responding to the survey, the biggest market shares were held by Bankers Trust Co., New York, with 13.5%; Northern Trust Co., Chicago, and Mellon Bank, Pittsburgh, each with 10.4%; Chase Manhattan Bank, New York, with 10.2%; and State Street Bank and Trust Co., Boston, with 8.2%.

The banks reported master trust assets as of March 31 and any change from a year before. *P&I Age* calculated market shares from those figures.

Among those with the biggest market shares, the only one with a major shift in its share was Chase Manhattan. Its share in 1985 was 12.6%. Its master trust assets increased $2 billion, or 3.7%, to $56 billion, but the increase failed to keep pace with the overall market. Chase Manhattan officials said there was no simple explanation for the change.

Among those with the smaller market shares, the biggest shift was recorded by Bank of New York, whose share increased to 4.8% from 3.4%.

Other master trustees had market share shifts of less than one percentage point.

The only survey respondent with an actual drop in master trust assets was Continental Illinois National Bank & Trust Co., Chicago, with a 4.9% decrease to $10.8 billion.

In U.S. master custody, the biggest market shares were held by State Street Bank, with 17.8%; Chase Manhattan, 13.3%; Citibank, New York, 11.8%; Northern Trust, 9.5%; and Irving Trust Co., New York, 8.4%.

State Street Bank and Northern Trust both experienced jumps in market share. State Street Bank's 1985 share was 13.2% and Northern Trust's was 6.3%. Chase Manhattan, as with master trust, had a drop in master custody market share even though its assets increased slightly. Its 1985 master custody market share was 18.8%.

"We had a tremendous amount of new business in the public funds area," said Ronald Golz, executive vice president of State Street Bank. "We also had some good success with endowments and union funds." For all those types of funds, the legal trusteeship must remain with the institution, so the bank is a master custodian rather than master trustee.

Among smaller master custody players, one with a major change in market share was Mellon Bank, whose share increased to 1.5% from 0.2%. Master custodial assets increased more than nine-fold, to $5.7 billion from $600 million. That was primarily because of one

Continued on page 39

U.S. master trust/master custody banks ($ millions)

Rank	Bank	Total	Master trust assets	Master custodial assets
1.	State Street Bank & Trust Co.	$110,276	$44,839	$65,437
2.	Chase Manhattan Bank	105,000	56,000	49,000
3.	Northern Trust Co.	92,082	57,091	34,991
4.	Bankers Trust	90,500	74,000	16,500
5.	Citibank	67,800	24,200	43,600
6.	Mellon Bank	57,500	51,800	5,700
7.	Bank of New York	44,300	26,200	18,100
8.	Irving Trust Co.	43,000	12,000	31,000
9.	Boston Safe Deposit and Trust	33,873	26,191	5,682
10.	Harris Trust and Savings	32,225	25,961	6,264
11.	RepublicBank Dallas-Houston	27,900	17,900	10,000
12.	Manufacturers Hanover Trust	26,760	18,780	7,980
13.	First Pennsylvania Bank	23,800	2,000	21,800
14.	National Bank of Detroit	21,500	11,600	9,900
15.	Wachovia Bank and Trust Co.	21,500	20,400	1,100
16.	U.S. Trust Co. of New York	17,000	11,000	6,000
17.	Bank of America	13,931	10,970	2,961
18.	Manufacturers National, Detroit	13,800	11,400	2,400
19.	Continental Illinois	12,953	10,839	2,114
20.	Wilmington Trust Co.	10,978	10,978	0
21.	Citizens and Southern	8,571	1,043	7,528
22.	AmeriTrust Co.	5,600	3,500	2,100
23.	Mercantile-Safe Deposit	4,100	2,200	1,900
24.	First Trust Co., St. Paul	3,650	3,000	650
25.	Marshall & Ilsley Trust Co.	3,500	1,700	1,800
26.	Centerre Trust Co.	3,345	1,565	1,780
27.	First Wisconsin Trust Co.	3,102	1,871	1,231
28.	Norwest Bank, Minneapolis	2,600	2,000	600
29.	Marine Midland Bank	1,533	1,200	333
30.	Trust Co. Bank	1,150	450	700
	TOTAL	$809,829	$544,698	$265,131

Source: *Pensions & Investment Age*

Services receive high marks from corporate pension chiefs

By Carol Wiley

Corporate pension executives seem satisfied with their master trustee banks, rating them quite highly in personnel, cash management, performance measurement, reporting and other master trust services, a *Pensions & Investment Age* survey shows.

More than 130 corporate pension executives responded to the survey of master trust services. Executives anonymously rated their master trust banks in five categories on a scale of 1 (poor) to 5 (excellent). Only three of the 31 banks rated by the respondents fell below the mean of 2.5, indicating a general satisfaction with the master trust relationship.

All master trust banks rated by three or more corporate pension executives received ratings of 2.9 or better.

Master trust banks receiving ratings of 4 or higher in overall performance are Boston Safe Deposit & Trust; National Bank of Detroit; Mellon Bank, Pittsburgh; Harris Trust and Savings Bank, Chicago; and First Trust Co. of St. Paul.

First Alabama Bank (Merchants National), Mobile; Norwest Bank Minneapolis; Bank of America, San Francisco; First Interstate Bank of Arizona, Tucson; and First Bank Duluth (Minn.) also received ratings of 4 or better. Each was rated by one manager.

Master trust banks receiving ratings of 2.9 or better in overall performance are, in descending order, The Northern Trust Co., Chicago; RepublicBank Dallas, State Street Bank & Trust Co., Boston; Bankers Trust Co., New York; Chase Manhattan Bank, New York; Wachovia Bank & Trust Co., Winston-Salem, N.C.; Irving Trust Co., New York; Citibank, New York; and Manufacturers Hanover Trust, New York. (A table with the full ratings appears on page 40.)

Banks rated highly by fewer than three corporate pension executives include Bank of New York; United Missouri Bank, Kansas City; Idaho First National Bank, Boise; Connecticut National Bank, Hartford; Valley National Bank, Phoenix; Mercantile-Safe Deposit & Trust Co., Baltimore;

Continued on page 40

Master trust banks ranked by corporate pension executives

Rank	Bank	Rating	No. of Responses*
1.	Boston Safe Deposit and Trust	4.5	6
2.	National Bank of Detroit	4.3	4
3.	Mellon Bank	4.1	11
4.	Harris Trust and Savings	4.0	7
5.	First Trust Co., St. Paul	4.0	3
6.	Northern Trust Co.	3.8	21
7.	RepublicBank Dallas	3.8	9
8.	State Street Bank & Trust Co.	3.7	12
9.	Bankers Trust	3.6	19
10.	Chase Manhattan Bank	3.6	10
11.	Wachovia Bank and Trust Co.	3.6	7
12.	Irving Trust Co.	3.4	5
13.	Citibank	3.0	3
14.	Manufacturers Hanover Trust	2.9	3

*does not include banks with fewer than three respondents

Source: *Pensions & Investment Age*

Money managers echo feelings of satisfaction

Money managers, like pension fund executives, appear satisfied in their dealings with master trust banks.

In a survey that drew 50 responses, managers rated master trust banks in eight categories on a scale of 1 to 5, with 1 being poor and 5 being excellent. Only three of the 34 banks rated received a rating of less than 3, indicating a general satisfaction with services from master trust banks.

The eight categories are security clearance; keeping managers up-to-date on cash and transaction activity; automatically investing cash balances; prompt crediting of cash (principal and income); reporting accuracy; capabilities of account representative; cooperativeness of the institution; and an overall rating.

Of banks rated by at least three respondents, the highest overall score went to Harris Trust and Savings Bank, Chicago, which received a composite rating of 4.4 from 18 money managers.

Other banks in the top five included Citizens & Southern National Bank, Atlanta, with a score of 4.3 from six respondents, and M&I Marshall & Ilsley Bank, Milwaukee, rated 4 by three managers. Wilmington Trust Co., Wilmington, Del., and Bank of New York tied for fourth place with scores of 4.1. Wilmington Trust was rated by seven managers and Bank of New York by 17.

In fifth place was a four-way tie of AmeriTrust Co., Cleveland; Boston Safe Deposit & Trust Co.; Centerre Trust Co. of St. Louis; and Manufacturers National Bank of Detroit, all with ratings of 4. AmeriTrust was rated by 10 managers, Boston Safe Deposit by 20, Centerre by eight and Manufacturers Detroit by five.

Bank of Oklahoma, Tulsa, received the highest overall score — 4.7 — but was only rated by one manager. First Wisconsin Trust Co., Milwaukee, rated by two managers, and Rainier National Bank, Seattle, rated by one manager, were rated 4 overall.

Two banks received overall ratings of less than 3. They were First City National Bank of Houston, 2.6, rated by five managers, and Continental Illinois National Bank & Trust Co., Chicago, 2.9, rated by 10 managers.

None of the 50 managers ranked First National Bank of Atlanta or Winters National Bank & Trust Co., Dayton, Ohio.

(To see how the money managers rated all of the master trust banks in the survey in overall performance, see chart on page 40.)

Continued on page 40

a

AmeriTrust Co.

900 Euclid Ave., Cleveland, Ohio 44101; (216) 687-4089

Master trust assets	$3,500,000,000
Master custodial assets	$2,100,000,000
Master trust clients	41
Master custodial clients	15
Account supervisors	2

AmeriTrust Co. gained $618 million from last year in master trust assets. Master custodial assets increased $406 million.

The size of the smallest master trust client is $1 million; the largest is $456 million.

The primary accounting method used is settlement date with trade date reporting.

Basic master trust services include automated cash management system, pension/benefit payments, securities processing, performance measurement and custody services. Optional services include TUCS (performance measurement reports) and AmeriScan (on-line client inquiry).

Asset and liability and monthly transaction reports are delivered to clients five days after the end of a period. Performance measurement reports are delivered in 15 days. The transaction reports and asset and liability reports are available on-line.

New features include a pension payment system, trade date reporting and on-line client inquiry through the client's personal computer.

Fees are based on market value of assets and on individual services provided.

The client contact is Gary W. Queen.

International money managers will be profiled in the Aug. 4 *Pensions & Investment Age*.

b

Bank of America

555 California St., San Francisco, Calif. 94104; (415) 622-9568

Master trust assets	$10,970,000,000
Master custodial assets	$2,961,000,000
Master trust clients	25
Master custodial clients	13
Account supervisors	19

Bank of America's master trust assets increased $700 million from last year.

The size of the smallest master trust client is $23 million; the largest is $5.6 billion.

The primary accounting method used is accrual, but cash, modified cash, trade or settlement date, income-only accruals and book value also are offered.

Basic master trust services include accounting and reporting, cash management, pension disbursements and securities transactions. Optional services include participant record keeping, securities lending, performance measurement and analytics and global custody.

Monthly transaction and asset and liability reports are delivered to clients five to 10 business days after the end of the period. Performance measurement reports are delivered in six business days. Securities lending and performance measurement reports are available on-line. By the third quarter, all reports will be available on-line.

New features include conversion to an on-line, real-time system by mid-year. A global custody system has been installed.

Fees are based on percentage of assets, portfolio structure and transactions.

Client contact is John P. Sheehy, senior vice president.

Cash management survey: Oct. 27.

MOST MASTER TRUST TEAMS ARE CONNECTED BY TELEPHONE. NOT OURS.

It's pretty obvious that a Master Trust team can only run at peak efficiency when everyone on the team knows what everyone else is doing.

However, of all major money center banks, only The Bank of New York seems to have figured out that the way to achieve this is not via telephone tag.

It's by having each Master Trust team work together–not just figuratively, but literally. Desk to desk. Terminal to terminal.

So your administrative officer can literally turn to your investment specialist or your accountant to get your questions answered and your requests acted upon immediately. For that matter, you can call any one of them directly.

What's just as important, The Bank of New York has committed its resources to supporting the teams with one of the most extensive and highly sophisticated "back office" complexes anywhere, featuring timely, accurate, audited reports, cash management services, advanced on-line technology and performance measurement.

To learn more about our team approach to Master Trust, call Robert S. Darbee, Vice President, at (212) 530-1351. Or write him at The Bank of New York, 19 Rector Street, New York, NY 10015.

THE BANK OF NEW YORK MASTER TRUST

Bankers Trust Co.

280 Park Ave., New York, N.Y. 10017; (212) 850-2089

Master trust assets	$74,000,000,000
Master custodial assets	$16,500,000,000
Master trust clients	122
Master custodial clients	25
Account supervisors	38

Bankers Trust's master trust assets increased $18.4 billion from last year; master custodial assets were up $7.7 billion.

The size of the smallest master trust account is $1 million; the largest is $9 billion.

Trade date, fully accrued, is the primary accounting system. Settlement date accounting also is available.

Basic master trust services include custody, accounting, reporting and cash management. Optional services include benefit payments; securities lending; global custody; performance measurement; on-line inquiry; investment products and customized reporting.

Monthly transaction reports are available within three days after the end of the period; asset and liability reports, seven to 10 business days; and performance measurement reports, three weeks. All reports are available on-line.

New features include Dividend Plus, which captures cash differential derived from the discounts offered to investors on corporate dividend reinvestment plans; BT Cap, which allows investment managers to administer the assets of multiple clients in one consolidated portfolio and to use the firm's products; on-line benefit payments, and STIF Plus.

Accounting and reporting fees are charged per portfolio; transaction fees for directed trades; and administration charges are based on the size and complexity of the total relationship.

The client contact is Carter P. Reynolds, vice president.

Bank of New York

48 Wall St., New York, N.Y. 10015; (212) 530-1784

Master trust assets	$26,200,000,000
Master custodial assets	$18,100,000,000
Master trust clients	66
Master custodial clients	13
Account supervisors	12

Bank of New York's master trust assets were up $11.5 billion from last year; master custodial assets increased $8.5 billion.

The size of the smallest master trust client is $5 million; the largest is $12 billion.

Accounting methods used include trade date, settlement date, cash basis, modified cash basis, combination basis, full accrual, amortized cost/accumulation and liability accounting.

Basic master trust services include full administrative services, accounting reports, cash management, ERISA reporting, portfolio review, fail float protection, options and futures accounting and on-line inquiry. Optional services include performance measurement, securities lending, benefit payments, consulting services, global custody, daily unit valuations and on-line inquiry with two-way communication.

Reports are delivered within three to five days after the end of the period.

Performance measurement and asset and liability reports are available on-line.

Fees are based on a percentage of market value.

The client contact is Roy Lanza, vice president.

Boston Safe Deposit and Trust Co.

1 Boston Place, Boston, Mass. 02106; (617) 722-7457

Master trust assets	$28,191,000,000
Master custodial assets	$5,682,000,000
Master trust clients	37
Master custodial clients	14
Account supervisors	13

Boston Safe Deposit and Trust Co.'s master trust assets increased $7.2 billion from last year; master custodial assets decreased $65 million, attributed to a change in the market value

of one client's assets.

The size of the smallest master trust client is $23 million; the largest is $6.1 billion.

The primary accounting method used is a true trade date, full accrual system. Accounting systems also interface daily with a cash basis securities control system.

Basic master trust services are safekeeping of assets; full accrual; trade date-based accounting and reporting and cash management. Optional services include performance measurement and analysis; securities lending; global custody; benefit payments; participant record keeping; consulting services; structured investment products; on-line access capabilities; and personal computer workstation.

Monthly transaction and asset and liability reports are delivered to clients five days after the end of a period; performance measurement reports are delivered in seven days. All reporting information is available on-line.

New features include structured investment products, personal computer workstation and a national FSI PLUS payment system.

Fees are calculated on an individual basis, depending on the services required.

The client contact is Martina Millot.

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Canada Trust Co.

320 Bay St., Toronto, Ontario M5H 2P6; (416) 361-8248

Master trust assets	$3,579,000,000(U.S.)
Master trust clients	120

Master trust assets for Canada Trust Co. reflect the results of a Dec. 31 merger with Canada Permanent Trust Co.

The size of the smallest master trust client is $1 million; the largest is $358 million. All assets are in U.S. dollars.

The primary accounting method used is full accrual/contract. Settlement for trades also is offered.

Basic master trust services include all standard accounting and reporting services. Optional services include custom STIF, downloading, client access/data entry and performance measurement.

Monthly transaction reports and asset and liability reports are available five to 10 business days after the end of a period. Performance measurement reports are available six weeks after the end of a period. All are available on-line.

Fees are calculated on book value and transaction fees.

The client contact is R. LaForce, vice president-business development.

Centerre Trust Co.

510 Locust St., St. Louis, Mo. 63101; (314) 436-9132

Master trust assets	$1,585,000,000
Master custodial assets	$1,760,000,000
Master trust clients	7
Master custodial clients	5
Account supervisors	3

Centerre Trust's master trust assets increased $434 million from last year; master custodial assets were up $893 million.

The size of the smallest master trust account is $47.5 million; the largest is $569.9 million.

The primary accounting method used is full accrual/trade date accounting. Other methods offered are cash basis/settlement date accounting.

Basic master trust services include comprehensive monthly trust accounting at the money manager plan and master trust level; performance measurement; benefit payment processing and related tax reporting; option accounting; fail float; automatic money market sweep and participant record keeping services for defined contribution plans.

Optional services are securities lending and customized performance analytics.

Monthly transaction reports are delivered three to five business days after the end of a period; asset and liability reports are delivered in five to seven business days, and performance measurement reports in 15 days. Transaction and asset reports are available on-line.

New features include fully indemnified securities lending and a commingled real estate fund.

Fees are based on a combination of market value and the number of managers, plans and unitized funds.

The client contact is Richard Hibbs.

Chase Manhattan Bank

1211 Avenue of the Americas, New York, N.Y. 10036; (212) 730-3008

Master trust assets	$56,000,000,000
Master custodial assets	$49,000,000,000
Master trust clients	80
Master custodial clients	18
Account supervisors	35

Chase Manhattan Bank's master trust assets increased $2 billion from last year's; master custodial assets were up $2 billion.

The size of the smallest master trust account is $1 million; the largest is $15 billion.

The primary accounting method used is trade date with full accruals. Settlement date accounting also is offered.

Basic master trust services include on-line accounting and reporting systems, safekeeping, custody accounting, cash management, performance measurement, portfolio analysis index funds, futures/options accounting, ERISA and FASB reporting, securities lending and benefit disbursements. Optional services include performance measurement, comparative performance evaluation services, portfolio analysis systems, global performance measurement and consulting.

Monthly transaction and asset and liability reports are delivered the day following the end of the period. Performance measurement reports are delivered to the client in 10 business days. All reports are available on-line.

New features include inquiry, account maintenance, pricing, income audit, accruals, accounting, market valuations, allocation processing, cash projection and asset proof and control, all available daily; off-cycle accounting and reporting; flexible reporting formats; and off-cycle allocations processing.

Fees are based on the asset value of the account, as well as the structure and transaction volume.

The client contact is John A. Sweeney, vice president.

Citibank

1 Citicorp Center, 153 E. 53rd St., New York, N.Y. 10043; (212) 559-1523

Master trust assets	$24,200,000,000
Master custodial assets	$43,600,000,000
Master trust clients	130
Master custodial clients	67
Account supervisors	26

Citibank's master trust assets increased $8 billion from last year; master custodial assets were up $12.5 billion.

The size of the smallest master trust client is $1 million; the largest is $3.2 billion.

The primary accounting method used is trade date; settlement date also is offered.

Basic master trust services include safekeeping and custody; cash management; trade date reporting; ERISA reports; equitable share accounting; benefit disbursement; and on-line information systems. Optional services include flexible reporting; performance measurement and analysis; TUCS comparisons; global custody; securities lending; participant record keeping and DRIP service.

Transaction reports are delivered three business days after the end of the month. Asset and liability reports are available five to seven business days after receipt of all information and performance measurement reports are delivered in 15 business days. Transaction and asset reports are available on-line.

New features include the Citicorp Portfolio Analyst for on-line flexible

When Burroughs computed a need for a Master Trust, who did they bring on line?

Burroughs

In the rapidly evolving computer industry, a company needs to move forward simply to stay even. So when you're a leader like Burroughs, you need a master trustee to be as dynamic and responsive as you are. That's why they called in Harris Bank.

As with every Harris Master Trust, we committed a team of professionals to the Burroughs account. A team that developed and continues to maintain a thorough knowledge of Burroughs' business. To understand their needs. And anticipate their changes.

For Burroughs, that meant a smooth pension fund reorganization. And asset reallocation.

Our responsive, team-oriented approach was the perfect program for Burroughs. See if it computes for your Master Trust, too. Call our Marketing Representative, Mr. Walter J. Kowalczyk, at (312) 461-7625.

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